



**Director of  
Central  
Intelligence**

**Top Secret**



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# **National Intelligence Daily (Cable)**

**7 July 1982**

**Top Secret**

*CPAS NIDC 82-157C*

*7 July 1982*

*Copy 402*

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Approved For Release 2007/09/13 : CIA-RDP84T00301R000400010086-9

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ISRAEL-LEBANON: Breakdown in Cease-Fire

*The Israelis yesterday shelled West Beirut for several hours. PLO leaders continue to send mixed signals on their willingness to leave Beirut.* [redacted]

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The Israelis and the Palestinians blame each other for the breakdown yesterday of the 24-hour-old cease-fire. During the exchanges, Israeli gunboats and tank and artillery units shelled numerous Palestinian targets. [redacted]

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The confrontation line near the Galerie Simaan crossing received a heavy concentration of fire. Heavy shelling was reported as far north as the Corniche al Mazra'ah. [redacted]

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Water, electricity and food supplies to West Beirut were still cut off yesterday, but the Israelis reportedly have agreed to restore the utilities. [redacted]

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//Before the fighting between Israeli and Palestinian forces in the southern suburbs of Beirut ceased on Monday, Israeli forces had advanced to new positions along an arc stretching from the center of the airport east to the Beirut-Damascus highway. [redacted] the Israelis had taken the northern end of the airport and were within 500 meters of Burj al Barajinah.// [redacted]

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The Palestinians claim they destroyed eight Israeli tanks and killed or wounded more than 80 Israeli soldiers on Monday. Israel says three of its soldiers were wounded. [redacted]

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//According to press reports, Israeli vehicles entered the port area of Beirut on Monday and took up positions near the crossing point into West Beirut. [redacted]

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Israeli and Phalangist militia forces now control all the main crossing points into West Beirut.// [redacted]

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Comment: //The Israeli actions yesterday may be another escalation of the pressure on the PLO. The bombardment of the Galerie Semaan crossing, however, also could be a prelude to an attack designed to trap Palestinian units in the Burj al Barajinah refugee camp and the area north of the airport.//

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Prospects of PLO Withdrawal

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The PLO leader in a press interview also rejected suggestions that the Palestinians be evacuated under protection of the US fleet, but he did not rule out the involvement of US troops in a multinational force to be inserted between Palestinian and Israeli forces.

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IRAN-IRAQ: Iranian Military Preparations

*Signs are increasing that Iran is preparing to attack into Iraq soon, probably near Al Basrah.*

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//The Iraqis, meanwhile, are rapidly improving their defenses along the border near Al Basrah. Multiple lines of fortified positions have been constructed between Al Basrah and the border since the end of May.//

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//Iraqi forces remain in Iran along a small portion of the border northeast of Al Basrah. Iraq has major elements of six reinforced divisions, about 90,000 troops, in the Al Basrah area facing four Iranian divisions and Revolutionary Guards, at least 100,000 men.//

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//Morale of frontline Iraqi troops probably remains low following recent defeats in Iran. The density of Iraqi defenses, however, will force the Iranians to pay dearly to push to the Shatt al Arab. Iran probably will not launch an attack before mid-July.//

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IRAQ-EGYPT: Invitation to Nonaligned Summit

*Iraq's invitation to Egypt to attend the nonaligned summit meeting scheduled for September in Baghdad is a major step in Egypt's rehabilitation in the movement.* [ ]

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Although Egypt was a cofounder of the movement, it came under attack when it signed the Camp David accords. Cairo subsequently had to stave off several expulsion attempts by radical Arab states. [ ]

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Egypt received little criticism last April at a nonaligned meeting in Kuwait, however, when it called for mutual and simultaneous recognition between the PLO and Israel. The Egyptian representative also managed to prevent the conference communique from directly criticizing the Camp David process. [ ]

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Comment: Iraq fears its war with Iran will cause members of the movement to demand that the meeting place be changed, and by inviting Egypt it hopes to strengthen support among Arab moderates. Moderates within the movement want Egyptian help in the struggle with the radical, pro-Soviet faction for leadership. [ ]

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WESTERN SAHARA: Stalemate Continues

*//Morocco and the Polisario Front have been emphasizing diplomatic efforts without much effect on the Western Sahara dispute, and both probably will take new military measures after the OAU summit in Tripoli early next month.//*

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*//The seating of the Polisario Front at the OAU ministerial meeting in Addis Ababa last February hardened the positions of both parties. Morocco refuses to attend an OAU summit if the Polisario is seated, and the guerrillas insist on attending.//*

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Libyan leader Qadhafi has informed OAU member states that the guerrillas will not be admitted to the conference hall, although they may be present in Tripoli.

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Comment: *//Although military action in the Western Sahara has been unusually low during the last six months, the lull may end as the summit approaches. Press reports describe a battle this past weekend near the Moroccan stronghold of Semara, in which both sides may have suffered substantial casualties.//*

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*//After the summit, the Polisario probably will try again to breach the earthen wall that the Moroccans constructed in Western Sahara. Moroccan officials are concerned that the guerrillas are receiving training on more advanced equipment.*

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*//Qadhafi is anxious that the summit be well attended, but he may admit the Polisario at the last moment. If the Front is prevented from attending, the insurgents will be more inclined to resort to military action to force Morocco to consider direct negotiations.//*

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CHINA - WESTERN EUROPE: Foreign Minister's Tour

*Foreign Minister Huang Hua on his recent two-week trip through Western Europe emphasized Beijing's policy on Taiwan and its continued opposition to the USSR.* [ ]

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Huang took a pessimistic view of the Taiwan issue and relations with the US but said Beijing would oppose Soviet designs whatever its problems with Washington. In Bonn, Huang stressed that Moscow was seeking to exploit Chinese differences with the US and reaffirmed China's demand for substantial Soviet actions before bilateral relations can improve. [ ]

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The Chinese media gave low-key treatment to Huang's trip. Although the Foreign Minister encouraged Allied unity in dealing with the Soviets, Chinese commentary on the Western Alliance became more pessimistic in tone during the course of the tour. Beijing publicized Allied differences with the US on issues raised at two summit meetings and extensively replayed West European criticism of the US decision to prohibit sales of pipeline equipment to the USSR. [ ]

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Comment: Moscow's effort to suggest that the Sino-US dispute over Taiwan and China's low-level adjustments in contacts with the USSR presage further movement in Sino-Soviet relations almost certainly prompted Huang to contradict these assertions. The media in Beijing are associating China with the West European community to demonstrate independence from the US on some issues without damaging the Chinese effort to forge a common front against Moscow. [ ]

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SOMALIA-ETHIOPIA: Ethiopian Incursion

Somalia reports it is attempting to repel an incursion by Ethiopian forces and Ethiopian- and Libyan-backed Somali dissidents 10 to 15 kilometers inside its territory. The move, which began last week, reportedly has been accompanied by daily Ethiopian air and artillery attacks against border villages in the area. Mogadishu claims to have inflicted heavy losses on the attackers, including the destruction of several T-55 tanks. [REDACTED]

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Comment: //Addis Ababa is reacting to recent Somali probes into the Ogaden in search of Somali dissident encampments, which resulted in at least one clash with Ethiopian forces. No preparations for a sustained Ethiopian assault have been observed, and the Ethiopians probably will withdraw soon. Although the Ethiopians hope eventually to topple President Siad, they evidently believe this can be accomplished through heightened guerrilla activity and occasional demonstrations of Somali military weaknesses.// [REDACTED]

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INTERNATIONAL: New World Bank Lending Rates

The World Bank on Thursday formally approved plans to borrow a portion of its money needs at variable interest rates in short-term markets and to lend money to members at a rate that will change every six months instead of being fixed at the time of the lending commitment. Under the plan, the Bank will borrow up to \$1.5 billion in the fiscal year that started on 1 July out of a total need of about \$9 billion. The balance of the Bank's needs--\$7.5 billion in FY 83--will be raised in the usual manner by floating bond issues at fixed rates. A lending rate will be established based on the blended cost of the borrowed funds.

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Comment: The decision to borrow short term is largely forced by the Bank's growing financial needs at a time when long-term funds are scarce but short-term money is readily available. Lending at variable rates should more fully provide for a positive net return on the Bank's loan operations and thus help assure its continued solvency. The move, nonetheless, probably will lead to lower World Bank rates than would have been charged if the Bank had continued to borrow at long-term fixed rates. The decision also should allow the Bank's programs to expand and thus help offset the declining availability of even more expensive, private long-term money.

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SPECIAL ANALYSIS

EL SALVADOR: Government's Performance and Problems

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*//El Salvador's provisional government is having some success in improving its human rights record, carrying out the reform process, and professionalizing the armed forces. The chaotic economic situation and political divisiveness, however, leave the government vulnerable to political crises and military setbacks.//*

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*//The government has arrested and charged civilian vigilantes and security force personnel with specific political killings. Members of the official civil defense force have been apprehended for the murders of peasants suspected of supporting the left.//*

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*//The government and military also have publicly renewed their pledge to put the reform process into effect. The controversial assembly decree that postponed further distribution of most lands under Phase III of the agrarian reform has been clarified. A special committee that includes a senior military officer and a top leader of the largest farmworkers' union has been established to oversee future revisions in the reforms.//*

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*//In addition, the government has accelerated the awarding of both provisional and permanent land titles to peasants, and the armed forces have begun to intervene against landowners who have illegally evicted peasant renters. Rural labor leaders, who earlier were concerned over possible reversals in the reform process, now say they are more confident of the regime's commitment to carry it out.//*

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Problems Persist

*//The agrarian reform issue underscores the government's difficulty in satisfying both the social needs of the peasant population and the economic concerns of the*

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urban classes. Much of the land affected by the reform is devoted to export crops, which provide foreign exchange and funds needed to purchase imports for the productive sectors. As production declines, unemployment and underemployment--currently estimated at 50 percent--will worsen.// [redacted]

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//The government depends heavily on international financial aid to keep the economy afloat. The level of such aid is largely determined by foreign donors' views of the regime's political capabilities and intentions.// [redacted]

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//Deep personal and ideological rifts probably will continue to plague the provisional government. Personal vendettas and lack of dialogue and compromise among politicians will complicate proceedings in a 60-member constituent assembly comprised of four disparate conservative parties and the liberal Christian Democrats. The lack of legal and parliamentary experience among most legislators also will continue to cause problems.// [redacted]

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//The executive branch is more professional. It also is divided, however, among the major parties and headed by a nonpartisan president who appears unwilling to test fully the powers of his office.// [redacted]

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//President Magana views himself as an interim mediator among rival political interests. Although strong willed and outspoken, he seeks to avoid straining the fragile power-sharing arrangement among the parties and the military.// [redacted]

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//The armed forces appear united in their support for the civilian government and in keeping their distance from partisan politics. Senior officers, however, will insist on the need to increase domestic and international confidence in the regime and to secure the foreign aid needed to rebuild the economy and defeat the insurgents. [redacted]

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## Military Situation

//The government's mixed political record is matched by the military's spotty performance on the battlefield. The costly recapture of the towns of San Fernando and Perquin, for example, highlighted both the strengths and deficiencies of the armed forces.//

//The fighting in Morazan Department was perhaps the most intense of the two-year conflict, and government forces suffered substantial casualties. They were handicapped by poor intelligence preparation and by command and control, logistic and communications problems.//

//The rapid deployment of several thousand well-equipped troops, however, showed significant improvement in quick-reaction capabilities. The armed forces also showed better coordination in the last days of the fighting. They were supported by six newly arrived US A-37 ground attack aircraft and by three Honduran infantry battalions that helped block insurgent escape routes across the border.//

//The guerrillas will be hard pressed to sustain their momentum by launching an offensive similar to the one in Morazan any time soon. Units elsewhere are not as large or well equipped and organized as those in the east. The insurgents probably will thus concentrate on localized attacks against military outposts and economic sabotage.//

//Guerrilla leaders remain divided over political and military strategy. In coming months, insurgent operations are likely to reflect more the priorities of individual factions than any blueprint of the joint command in Nicaragua. Specially trained units, however, are still able to carry out spectacular offensive missions, such as the destruction of the Oro Bridge last October and the sabotage in January of the airbase at Ilopango.//

## Prospects

//The current trend of modest government gains and setbacks on both the political and military fronts seems likely to continue over the next several months. The insurgents, meanwhile, do not appear able to launch a renewed large scale offensive in the near term. They retain their ability, however, to intensify the war of attrition periodically.//

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